



Department of Defense

DoD Progress in Environmental Liabilities Reporting

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ODUSD(I&E)/EM
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Agenda

Acquisition, Technology and Logistics

- DoD Environmental Liability Overview
- Legislative Requirements
- Audit Progress
- Financial Improvement Initiatives
 - FIAR
 - Business Transformation
- Financial Improvement Outcomes
- AAPC General PP&E Task Force
 - Equipment Disposal Liabilities
 - Asbestos
- Questions



DoD EL Overview

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- Environmental and Disposal Liabilities represent 3% of the Department's liabilities (with Military Retirement and Other Federal Employment Benefits at 93%)
- Financial statements reflect total cleanup cost remaining as of the reporting date
- Reported in Agency Financial Report (AFR)

Liabilities

\$ in Billions

As of September 30, 2008 and 2007

	2008	2007
Accounts Payable and Other Liabilities	\$ 79.9	\$ 71.6
Military Retirement and Other Federal Employment Benefits	1,984.6	1,874.7
Environmental and Disposal Liabilities	70.5	72.5
Total Liabilities	\$2,135.0	\$2,018.8

Liabilities Covered by Budgetary Resources

\$441,040



Liabilities Not Covered by Budgetary Resources
\$1,693,959

All Other Unfunded Liabilities \$27,688 (2%)
Unfunded Environmental Liabilities \$66,870 (4%)
DoD Unfunded Military Retirement and Health Benefits \$327,354 (19%)
Unfunded Military Retirement and Health Benefits funded by Treasury \$1,272,047 (75%)

Source: Agency Financial Report 2008



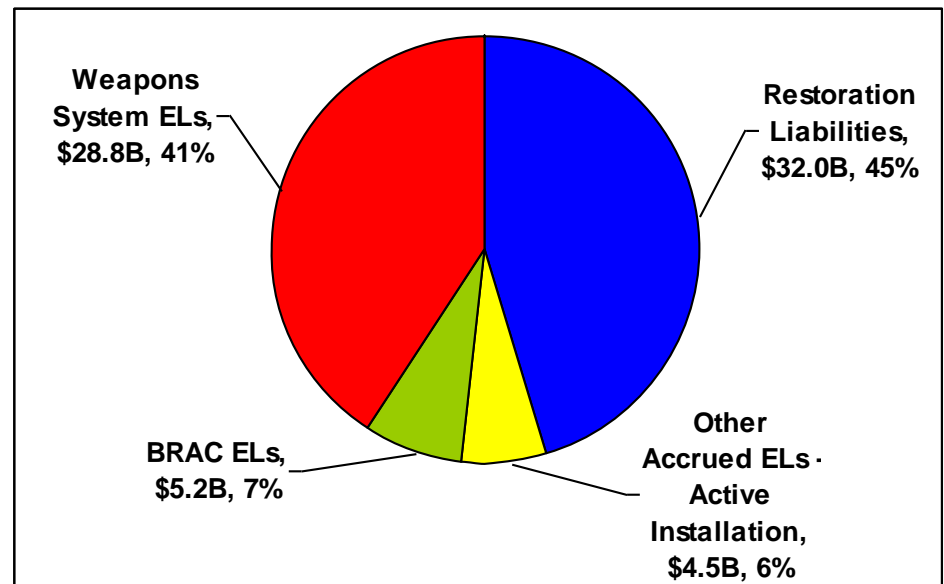
Defining Environmental Liability

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What are the EL Categories on DoD's Note 14?

- DERP cleanup
 - Active installations
 - BRAC installations
 - FUDS properties
- Facility/unit closures
 - Active installations
 - BRAC installations
- Chemical Demilitarization
- Equipment Disposals
- Asbestos

DoD's FY08 4th Qtr ELs: \$70.5B





Legislative Requirements

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- **CFO Act:** *Requires annually audited financial statements; complete, reliable, timely*
 - **FASAB** – Federal Accounting Standards Advisory Board: *Promulgates federal accounting standards*
- **Federal Managers Financial Integrity Act (FMFIA)**
 - **Statement of Assurance:** *Management assessment of internal controls, outstanding material weaknesses, and corrective action plan.*
- **Federal Financial Management Improvement Act (FFMIA)**
 - *Implement and maintain financial systems that comply with federal accounting standards and United States Standard General Ledger (USSGL) **at transaction level.***
 - *Ensure funding for defense business system modernizations meets the system certification and **annual review** provisions of the FY05 National Defense Authorization Act (NDAA) – **ODUSD(I&E) Investment Review Board***
- **Government Performance and Results Act (GPRA)**
 - *Established performance-based budgeting and reporting.*
 - *Improve accountability for financial information, performance measures, internal controls, cost savings and efficiencies; need to **link budgetary, program, and accounting information***



Audit Progress

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- Several DoD Agencies with EL received audit opinions on their financial statements:
 - The U.S. Army Corps of Engineers Civil Works
 - Defense Commissary Agency
- Navy nuclear and conventional ships business segment is undergoing review to confirm audit readiness.
- Continuing to learn from audit experience



Material Weaknesses

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- Environmental Liabilities continues to be listed as one of 12 internal control weaknesses associated with financial reporting
- DoDIG and GAO audits focused on internal controls:
 - Support documentation for EL cost estimates
 - Segregation of duties: Cost Estimator, Reviewer, Approver
 - Reconciliation of environmental and property records
 - Include all costs, including those to paid with prior budgetary authority
 - Inadequate audit trails
 - Incomplete universe of ELs
- Updated policy and guidance addresses audit recommendations
 - DERP Manual – Interim signed out Dec 2007; Final in near-term
 - EL Training Standards – Dec 2007
 - Policies and procedures updated by DoD Components

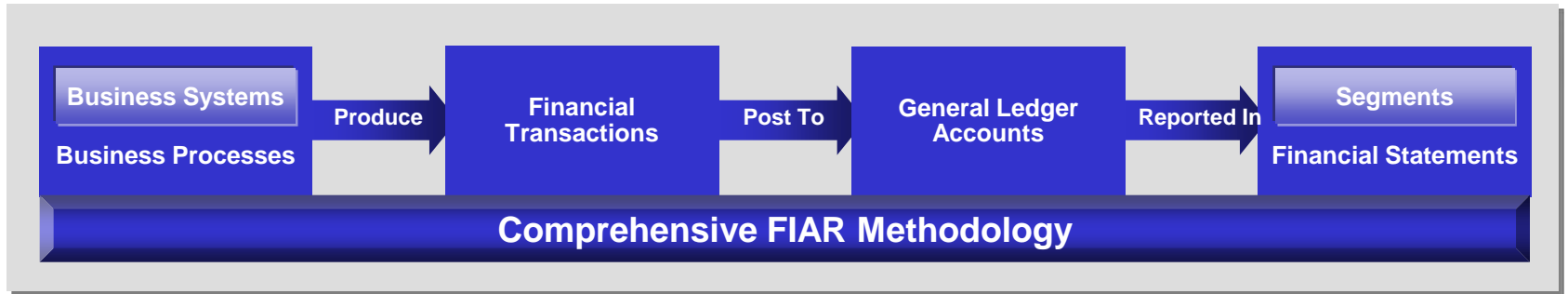


Financial Improvement Initiatives

FIAR Plan

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Segment to Process Relationship



- Financial Transactions occur in the course of Business Processes
- Financial Reporting relies on internal controls within Business Processes to capture Financial Transactions
- Establish End-to-End Business Processes
- Assert by Business Segment
- FIAR Plan updated semi-annually

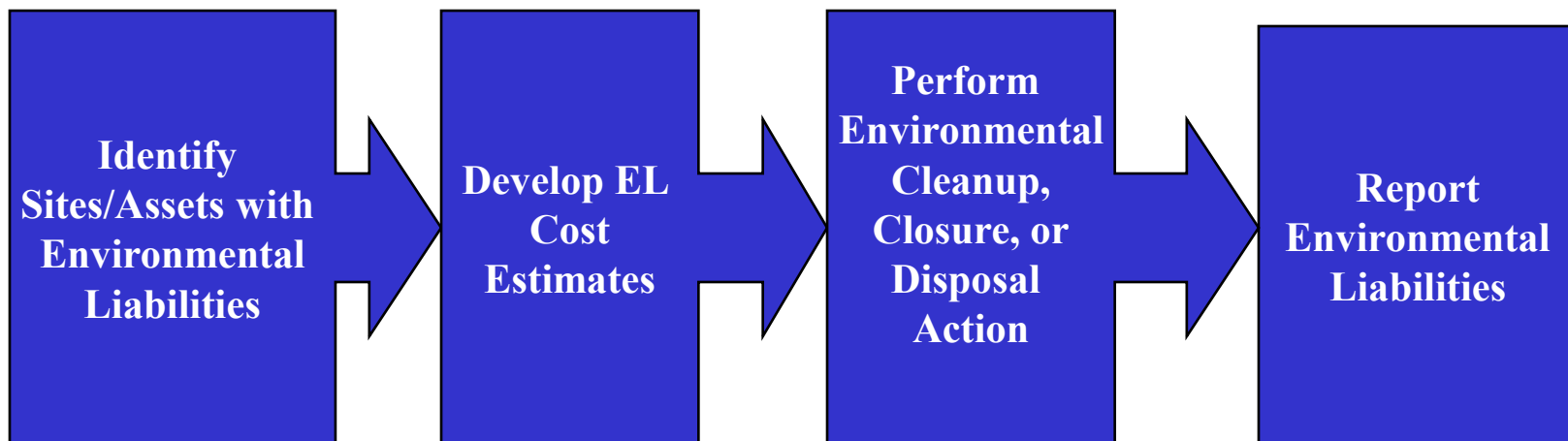


Financial Improvement Initiatives

End-to-End EL Business Process

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The **End-to-End** Environmental Liabilities **Business Process** encompasses all business functions necessary to **identify** environmental cleanup, closure, or disposal issues that represent a DoD environmental liability, to **develop cost estimates**, and track expenditures related to actions required to eliminate identified EL, and to **report** appropriate financial information about the environmental liability.





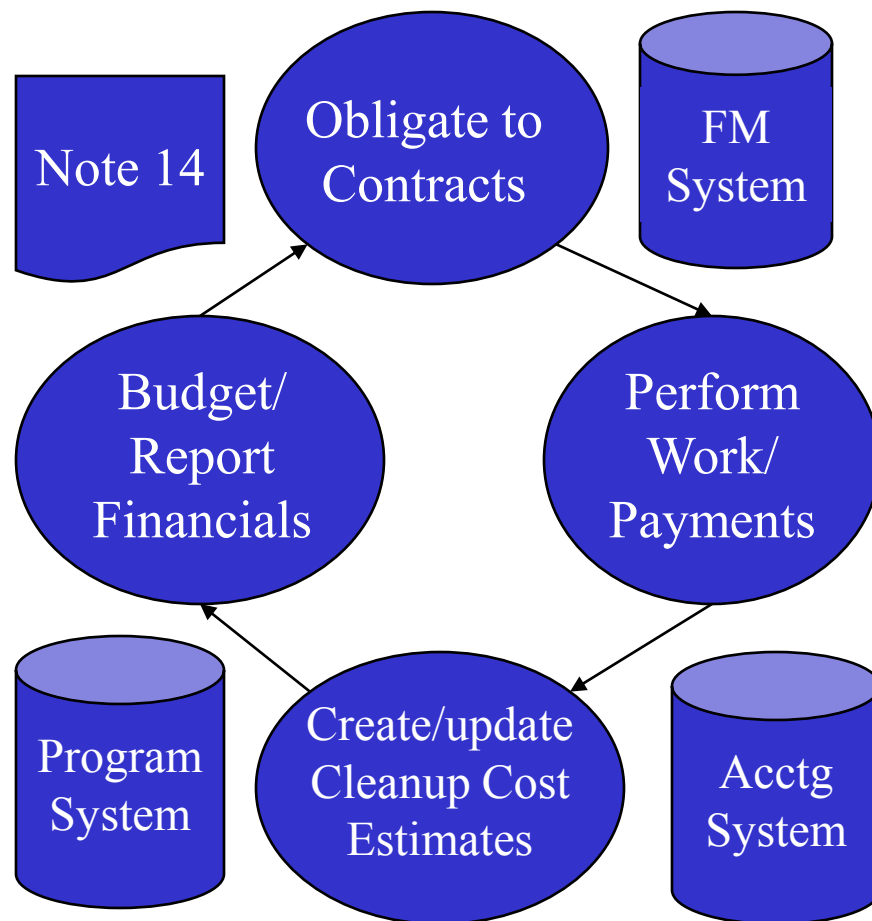
Financial Improvement Initiatives

Business Transformation

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Creating the Audit Trail

- Cleanup cost estimates support budget requests and financial reporting
- Accounting systems should link to program systems
- Expect ERPs to drive schedule for full modernization
- Complete business cycle supports financial reporting and audit trail





Financial Improvement Outcomes

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- Provide support to reported values
 - Budget Justification
 - Audit Trail / Clean Audit
 - Public Confidence / Transparency
 - Ease burden of Congressional Reporting
- Track historical and planned cost / schedule
 - Identify Cost Drivers / Avoidance
 - Establish Trends and Predictions
 - Validate / Support Performance Goals (e.g., years to completion)
 - Financial Performance Metrics (ROI)
- Meet Legal Requirements
 - CFO Act – Integrate accounting and program systems to support audit
 - GPRA – Establish performance-based budgets
 - FFMIA - Employ information systems that support GAAP



AAPC General PP&E Task Force

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- Established in January 2008; meets monthly
- Federal agency-wide participation: DOI, DoD, DOE, NASA, Commerce, DHS, NSF, DOT, FAA, EPA, GSA, auditors, FASAB
- Four subcommittees: Acquisition, Use, Disposals, Record Retention
- Disposals Subcommittee has two white papers:
 - Identification and Recognition of Asbestos Cleanup Costs
 - Accounting for Cleanup Costs Associated with Equipment: Routine vs. Disposal
- Status – Responding to AAPC and FASAB comments



Accounting for Cleanup Costs Associated with Equipment: Routine vs. Disposal

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- Objective is to clarify difference between routine operational cost and environmental liabilities
- Confusion arises in implementation when routine HW disposal occurs at end of asset life.
- White paper establishes criteria based upon:
 - Waste Management Method / Existing Contract
 - Regulatory Code

SFFAS No. 6 Paragraph 93: Other cleanup costs, such as those resulting from accidents or where cleanup is an ongoing part of operations, are to be accounted for in accordance with liability standards and are not subject to the recognition guidance provided in this standard.



Identification and Recognition of Asbestos Cleanup Costs

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- Objectives
 - Consider cost/benefit in implementing TB 2006-1
 - Allow for modeling asset groupings
- Two proposals under review and comment
 - Value to User
 - Cleanup costs for non-friable asbestos are not reasonably estimable prior to asbestos survey
 - Asbestos regulatory requirements are conditional
 - Presence of non-friable asbestos disclosed in narrative
 - Request for Extension
 - Lack of data on asbestos in buildings
 - Limited guidance on developing cost estimates
- Implementation Guidance



Summary

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- Auditable EL reporting is essential for DoD to obtain a clean opinion of its financial statements.
- Significant progress made in supporting clean-up cost estimates and improving internal controls.
- Continued improvements in financial management to be realized from business modernization.
- Accounting policy clarifications needed to determine full scope of EL.



Questions

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Points of Contact

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Backup Slides

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Defining Environmental Liability

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What are Environmental Cleanup Costs?

- Accounting Standards use the term “cleanup” more broadly than the environmental definitions:
 - Environmental Cleanup Costs include:
 - Traditional CERCLA and RCRA Cleanup/Corrective Action (DERP and non-DERP)
 - Closures / Post-Closure per regulatory permits
 - Other future costs **at disposal** driven by federal, state, or local regulations
 - Asbestos Costs incurred **at closure/disposal** (friable and non-friable)



EL Note 14

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Note 14

Environmental Liabilities and Disposal Liabilities

As of [Current Fiscal Period End Date]	(1)	(2)	(3)	(4)
	[Current FY]			[Prior FY]
	Current Liability	Non-current Liability	Total	Total
(Amounts in thousands)				
1. Environmental Liabilities—Non-Federal				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations - Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR) Removal	\$ \$\$. \$\$	\$ \$\$. \$\$	\$ \$\$. \$\$	\$ \$\$. \$\$
2. Active Installations - Military Munitions Response Program (MMRP)	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
3. Formerly Used Defense Sites - IRP and BD/DR	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
4. Formerly Used Defense Sites - MMRP	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
B. Other Accrued Environmental Liabilities - Active Installations				
1. Environmental Corrective Action	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
2. Environmental Closure Requirements	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
3. Environmental Response at Operational Ranges	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
4. Other	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
C. Base Realignment and Closure Installations				
1. Installation Restoration Program	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
2. Military Munitions Response Program	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
3. Environmental Corrective Action / Closure Requirements	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
4. Other	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear-Powered Aircraft Carriers	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
2. Nuclear-Powered Submarines	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
3. Other Nuclear-Powered Ships	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
4. Other National Defense Weapon Systems	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
5. Chemical Weapons Disposal Programs	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
6. Other	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$	\$\$. \$\$
2. Total Environmental Liabilities	\$ \$\$. \$\$	\$ \$\$. \$\$	\$ \$\$. \$\$	\$ \$\$. \$\$